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For Immediate Release

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### **FY2017-21 Medium-term Business Plan**

The PARCO Group today announced its Medium-term Business Plan for FY2017-21. The details are as follows:

#### **1. Business environment**

##### **(1) Successes and issues regarding the previous Medium-term Business Plan (FY2014-16)**

The previous Medium-term business plan was positioned as a period for the execution of our growth strategy, and in the Stores Business we managed to build a stable foundation for store operation, begin the implementation of our plan to reconstruct Shibuya PARCO as a driver for further growth, and open new stores (Fukuoka PARCO New Building and Main Building Extension, Nagoya PARCO midi, Sendai PARCO2). For Development Projects, we engaged in advancing our growth strategy by developing ZERO GATE businesses in areas around existing stores (Nagoya, Sapporo, Hiroshima 2). However, we made the decision to close certain stores (Chiba PARCO, Otsu PARCO) to improve profitability, and there is room for improvement regarding efforts to increase profitability through further store openings, and fostering growth in overseas and other new business.

##### **(2) Potential future changes in environment and business issues**

We expect the consumer environment around the PARCO Group to be affected by factors such as the rapid evolution of technology, diversifying lifestyles, population aging and decrease, heightened competition in the retail and property development spaces driven by population inflow into urban areas, and an increase in inbound demand in the approach to the Tokyo Olympic and Paralympic Games.

Based on these predictions, we feel it is crucial to respond to the needs of maturing cities, which will exceed the current value provided primarily by the Stores Business, and recognize the necessity of advancing the process of business choice and focus to accelerate innovation of our business portfolio.

**2. The Medium-term Business Plan for FY2017-2021**

**(1) Responding to expected changes in the business environment**

In response to the expected changes mentioned above, the PARCO Group has adopted the concept that 'business choice and focus = wider value provided by PARCO Group businesses in urban areas', and is engaging in widening the core value provided by PARCO to meet diversifying consumer needs by advancing a scrap and build policy to increase the advantages of our Urban Stores, and expanding the variety of schemes and business categories in development to respond to further development needs and secure reliable profits.

**(2) Outline of the Medium-term Business Plan based on PARCO's Long-term Vision and three business strategies**

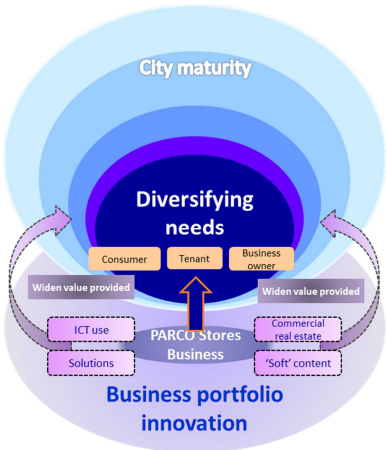
Under the PARCO Group's Long-term Vision established in 2014, we strive to be *designers of unique offerings for 24/7 urban life and creative drivers of urban evolution* to achieve our goal of being a *business group that prospers in urban markets*. The Medium-term Business Plan for FY2017-21 was formulated based on the three strategies for achieving this vision - *cultivation of major urban areas, expansion of core targets, and innovative use of ICT\**.

\*Information and Communication Technology - technology and services in various fields relating to the processing and sharing of information.

**Outline of the Medium-term Business Plan**

PARCO will *contribute to city maturity* by leveraging the businesses of the entire Group, including the Stores Business, to meet the diversifying needs of consumers who enjoy urban lifestyles and business owners active in urban areas through the provision of unique PARCO values, such as *personal fulfilment, new inspirations, and contentment*.

To achieve this, PARCO Group will update its businesses and expand into new business areas to improve existing value provided and realize business portfolio innovation.



**(3) Three tactics for realizing the Medium-term Business Plan**

Tactic 1: Evolve the store brand

We will aim to evolve the PARCO store brand by applying concepts created through the creation of the new Shibuya PARCO to strengthen Urban Stores, upgrading tenant services, and stabilizing earnings by realizing next-generation commercial spaces that provide consumers with a genuine retail experience.

#### Tactic 2: Produce commercial real estate

We will aim to secure business locations centered on urban areas with growth potential in which we have yet to open a store, and engage in diversifying development schemes and expanding business variety by creating new business categories in addition to our PARCO Stores and ZERO GATE Businesses.

We will also provide unique solutions for shopping complex operators and tenants, such as the Group's Space Engineering and Management Business and Web Consulting Business.

By realizing these initiatives, we will increase sources of revenue.

#### Tactic 3: Expanding soft content

In our Entertainment Business, which offers unique soft content, we will engage in evolving existing content and creating new content, and in our Lifestyle Business we will advance the expansion of Group companies into new specialist store areas. We will also act as an incubator by collaborating with new creators and companies to provide fresh consumer experiences.

### **(4) Four directions for advancing the three tactics**

#### ① Expand domain to include *commercial real estate and soft businesses that leverage PARCO's intrinsic expertise and capabilities*

##### a. Develop a Commercial Real Estate Production Business

- Aim to develop 12 projects over five years, including four PARCO stores, five ZERO GATE stores, and three projects in new business categories.
- Consider a cyclical real estate investment model to improve real estate development capabilities and asset efficiency.

##### Publicly announced development projects

PARCO	Ueno Matsuzakaya New South Wing Store (autumn 2017), new Shibuya PARCO (autumn 2019)
ZERO GATE	Kyoto (FY2017), Harajuku (winter 2017), Sannomiya (to be decided)
New business	Kinshicho (H2 FY2018), Okinawa Urasoe West Coast Development Plan* (summer 2019)

\*Joint venture with SAN-A CO., Ltd.

- PARCO SPACE SYSTEMS will expand orders and revenue for its facility space business by employing multi-skilled staff to provide client-tailored innovation proposals.
- PARCO Digital Marketing specializes in providing web consulting for shopping centers and

will work to expand its business to provide services for the next generation of shopping centers through new development and strengthening partnerships that support upgraded services and new technology.

b. Expand Lifestyle Business

- NEUVE A will expand to open shops in urban areas in both existing and new business categories, and fully launch an EC\* service. It will also consider partnerships with companies outside the Group with the aim of expanding its business area.

\*Electronic Commerce

c. Develop Entertainment Business

- The Entertainment Business will increase the scale of entertainment provided by launching a new PARCO Theater and acquiring live entertainment venues, deepen the promotion functions of PARCO stores, and strengthen content business development and expand it outwards.

d. Develop Overseas Business

- The PARCO Group will develop content in Asia, advance its engagement of inbound and outbound demand through overseas shopping center collaborations, and raise awareness of the PARCO brand in the region.

② Increase operational efficiency through business resource choice and focus – be a compact, high-yield business group.

a. Consolidate the Stores Business as a stable foundation

- Shift business resources to Urban Stores with high profitability and growth potential, and develop shopping complexes from the store-based model generally accepted by store owners and consumers that primarily involves the sale of goods into next-generation commercial spaces offering experiences based on services and information sharing.
- Increase the Stores Business' advantages and differentiate from competitors through mutually beneficial collaborations with merchandising, restaurant, and crowd funding businesses that accommodate diverse lifestyles, and encourage the growth of each business.

b. Advance a scrap and build policy for stores

- The PARCO Group takes into consideration all factors, including changes to the commercial environment, future return on invested capital, and the contract period on the property, in its decisions to close stores. It has decided to close Otsu PARCO at the end of August 2017.

c. Apply International Financial Reporting Standards

- The application of IFRS will be taken as an opportunity to increase operational efficiency through management innovation, such as putting greater focus on cash flow and the balance sheet.
- We will operate Group Companies with the goal of increasing profitability.

③ Widen unique value provided to meet the diversifying needs of urban consumers and business owners

- We will proceed with the reconstruction of Shibuya PARCO, the point of origin for the PARCO Group, and will share the essence of concepts used in the creation of the new Shibuya PARCO (scheduled to open in autumn 2019) throughout the Group in order to create next-generation commercial spaces.
- A CRM\* strategy that leverages ICT and PARCO's unique perspective will be used to expand services available to consumers and tenants.
- We will create fresh customer experiences by uncovering new talent and forging partnerships with new creators and other companies we have not worked with before.

\*Customer Relationship Management – a management method that utilizes customer data to increase customer satisfaction.

④ Develop a corporate culture that expands our purpose in society

- The PARCO Group recognizes our role in society as a provider of *incubation*, *urban revitalization*, and *trend communication*. We aim to develop a corporate culture that harnesses the creativity of Group employees and the abilities of external partners so we can work together to create and deliver value that exceeds market expectations.
- To achieve this, we will carry out organizational reform and innovate our human resources policy to advance diversity and inclusive management, and develop sustainable operations that are considerate of concerns such as lifestyle choices, social responsibility, operational efficiency, and governance.

**■Quantitative business targets**

We adopted IFRS from March 2017, the start of this Medium-term Business Plan, in order to strengthen efforts to boost profit creation capabilities by improving the international comparability of financial information for PARCO Group stakeholders and increasing understanding and awareness of our business model by more accurately reflecting it in financial statements.

By implementing the measures set out in this plan, we aim to achieve a consolidated operating income of ¥14.7 billion, EBITDA of ¥23.5 billion, and a consolidated ROE of 6.5-7.0% by FY2021, the final year of the plan.

Additionally, operating income was given a temporary boost in FY2016 by special circumstances such as the decision of temporary closure of Shibuya PARCO for reconstruction, the closure of Chiba PARCO, and the decision to close Otsu PARCO. The table below has been amended to give a more substantive comparison of the fiscal years.

### Quantitative business target comparison

Unit: billion yen

Consolidated	FY2021 target	FY2016 results (amended)	FY2021 plan vs. FY2016 actual	
			Growth	Difference
Operating income	14.7	11.5	127.8%	+3.2
EBITDA *1	23.5	16.8	139.9%	+6.7
ROE *2	6.5 - 7.0%	6.1%	—	+0.4 - 0.9%

Unit: yen

EPS (Earning per Share) *3	92.02	68.94	—	+23.07
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Note: An IFRS reference for the FY2016 results that reflects the Japanese GAAP results using IFRS has been made but is still being audited. Therefore, there is a possibility that figures may be amended further.

\*1 EBITDA in this table refers to operating income plus depreciation and amortization

\*2 ROE in this table refers to income attributable to owner of the parent divided by the average number of common shares outstanding for the period.

\*3 EPS in this table refers to income attributable to owner of the parent divided by the total number of shares outstanding.

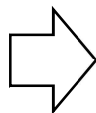
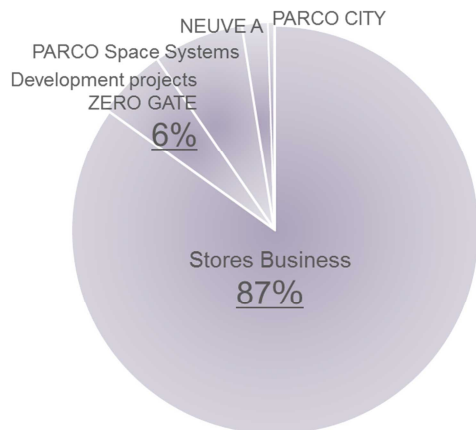
Our investment plan involves a cumulative total investment of ¥66.8 billion over the five years of the plan, comprising ¥40.4 billion in strategic growth investments, such as shopping complex development and new business, and ¥26.4 billion in operational investments, such as store refurbishments and related business.

We also plan to create ¥77.3 billion yen in operating cash flow over five years.

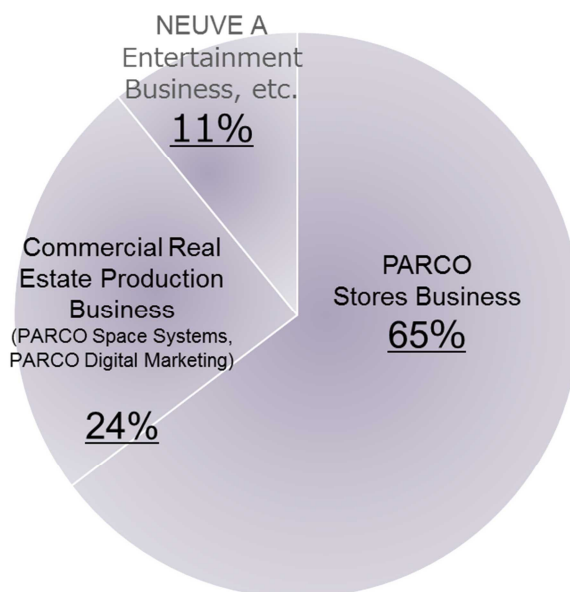
### Business portfolio innovation (operating income)

We will innovate our business portfolio so by FY2021 we will not be over-reliant on the Stores Business.

**FY2016 results**  
**excluding special circumstances**



**FY2021 plan**



By innovating our business portfolio through a process of business area choice and focus as outlined in the Medium-term Business Plan above, we will contribute to the realization of the J. Front Retailing Group Vision of *inventing a new happiness for daily life*.

(Note) The above release was created based on the information available at the time of announcement. Actual results may differ due to various unforeseen factors.

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